

## NOTICE

September 11, 2025

### Research and Experimental Expenditures

The Tax Cuts and Jobs Act (TCJA) of 2017 amended I.R.C. §174 to require taxpayers to capitalize and amortize their Research and Experimental (R&E) expenses over a five-year or 15-year period for domestic and foreign costs, respectively. The changes to I.R.C. §174 apply to R&E expenses paid or incurred in tax years beginning after Dec. 31, 2021.

Effective retroactively for expenditures incurred on or after January 1, 2024, § 40-18-62, Code of Ala. 1975, decouples from I.R.C. §174 in favor of providing taxpayers an option to currently deduct R&E expenditures or treat the expenses in the same manner as I.R.C. §174 before the TCJA amendments took effect in tax year 2022.

To claim a deduction on the Alabama return for the expenditures made on or after January 1, 2024, the full amount of the R&E expenditures can be taken as a deduction on the Alabama return. **The annual amount amortized and deducted on the federal return must be added back to taxable income; this addition will need to be made for each year until the remaining amount is fully amortized.**

The One, Big, Beautiful Bill Act (OBBBA) was signed into law July 4, 2025; the act amended I.R.C. §174 and added I.R.C. §174A which provides the option to fully expense domestic R&E expenditures for tax periods beginning after December 31, 2024. The new I.R.C. §174A(f)(2) also provides for a write-off provision for previously capitalized and unamortized amounts from the 2022-2024 tax years. On the 2025 federal return, taxpayers may deduct the remaining unamortized amounts in full or ratably over a two-year period. For 2025 and 2026, if option (ii) under I.R.C. §174A(f)(2) is elected, these expenses will need to be added back to Alabama income to the extent they were previously deducted on the 2024 Alabama return due to § 40-18-62, Code of Ala. 1975.

### Instructions by Form

#### C Corporations (Form 20C):

To claim a deduction on Form 20C, the full amount of the R&E expenditure can be taken as a deduction on Form 20C, Schedule A Deductions, Line 10. The annual amount amortized and deducted on the federal return must be added back to taxable income on Form 20C, Schedule A Additions, Line 24.

#### Financial Institutions (Form ET-1):

To claim a deduction on Form ET-1, the full amount of the R&E expenditure can be taken as a deduction on Form ET-1, Schedule A Deductions, Line 24. The annual amount amortized and deducted on the federal return must be added back to taxable income on Form ET-1, Schedule A Additions, Line 9.

**S Corporations (Form 20S):**

To claim a deduction on Form 20S, the full amount of the R&E expenditure can be taken as a deduction on Form 20S, Schedule A Deductions, Line 10 (Other reconciling items). The annual amount amortized and deducted on the federal return must be added back to taxable income on Form 20S, Schedule A Additions, Line 3 (Other reconciling items).

**Partnerships/LLEs (Form 65):**

To claim a deduction on Form 65, the full amount of the R&E expenditure can be taken as a deduction on Form 65, Schedule A Deductions, Line 9 (Other reconciling items). The annual amount amortized and deducted on the federal return must be added back to taxable income on Form 65, Schedule A Additions, Line 3 (Other reconciling items).

---

**Contact**

Corporate Income Tax Section  
P.O. Box 327435  
Montgomery, AL 36132-7435  
334-242-1200

Financial Institution Excise Tax  
P.O. Box 327439  
Montgomery, AL 36132-7439  
334-242-1200

Pass Through Entity Unit  
P.O. Box 327444  
Montgomery, AL 36132-7444  
334-242-1033

---